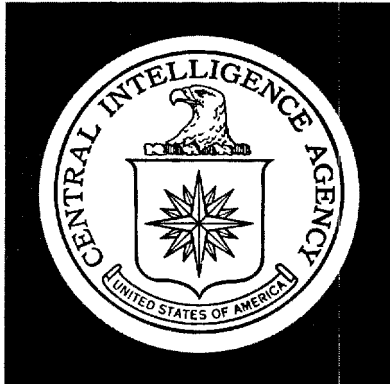


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Chile: The government has proposed major revisions in the "Chileanization" agreements it signed with US copper companies in 1967.

The proposal involves a complex formula under which company profits would be tied to production costs and the government would increase its share in the "surplus profits" being earned under prevailing high copper prices. One US company estimates that its income might be cut by more than half under the new arrangement. If the companies do not agree to these changes, the Frei administration threatens to introduce legislation to this effect in congress.

Under the "Chileanization" agreements the government acquired shares in the companies, and reduced their taxes substantially in return for a promise to put about \$500 million into new investments in Chile. The world price of copper has been high since 1967, and both the government and the companies have made large windfall profits. The government has had budgetary difficulties, however, and many politicians are looking to the copper companies for additional income.

Frei may hope that by getting more money from the companies he will be able to head off increasing pressure for complete nationalization. Frei's domestic position is generally weakening, and his Christian Democratic Party is being subjected to serious strains. Leaders of the party's leftist wing and of its youth group resigned last week, stating they planned to begin a "movement" for "popular unity" that would be open to Marxists. This action is symptomatic of the disarray among the Christian Democrats, and an issue like revision of the copper agreements gives some promise of helping them rally.

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NOTES

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USSR-Pakistan: The USSR may be assisting the Pakistani Air Force in developing an air defense system in East Pakistan.

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The installation of such a system would significantly strengthen Pakistani air defenses in a hitherto neglected area. If an early warning system is being developed, the USSR probably agreed to supply this equipment under the arms agreement of July 1968.

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